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MAY 1986

AMERICAN CITY & COUNTY

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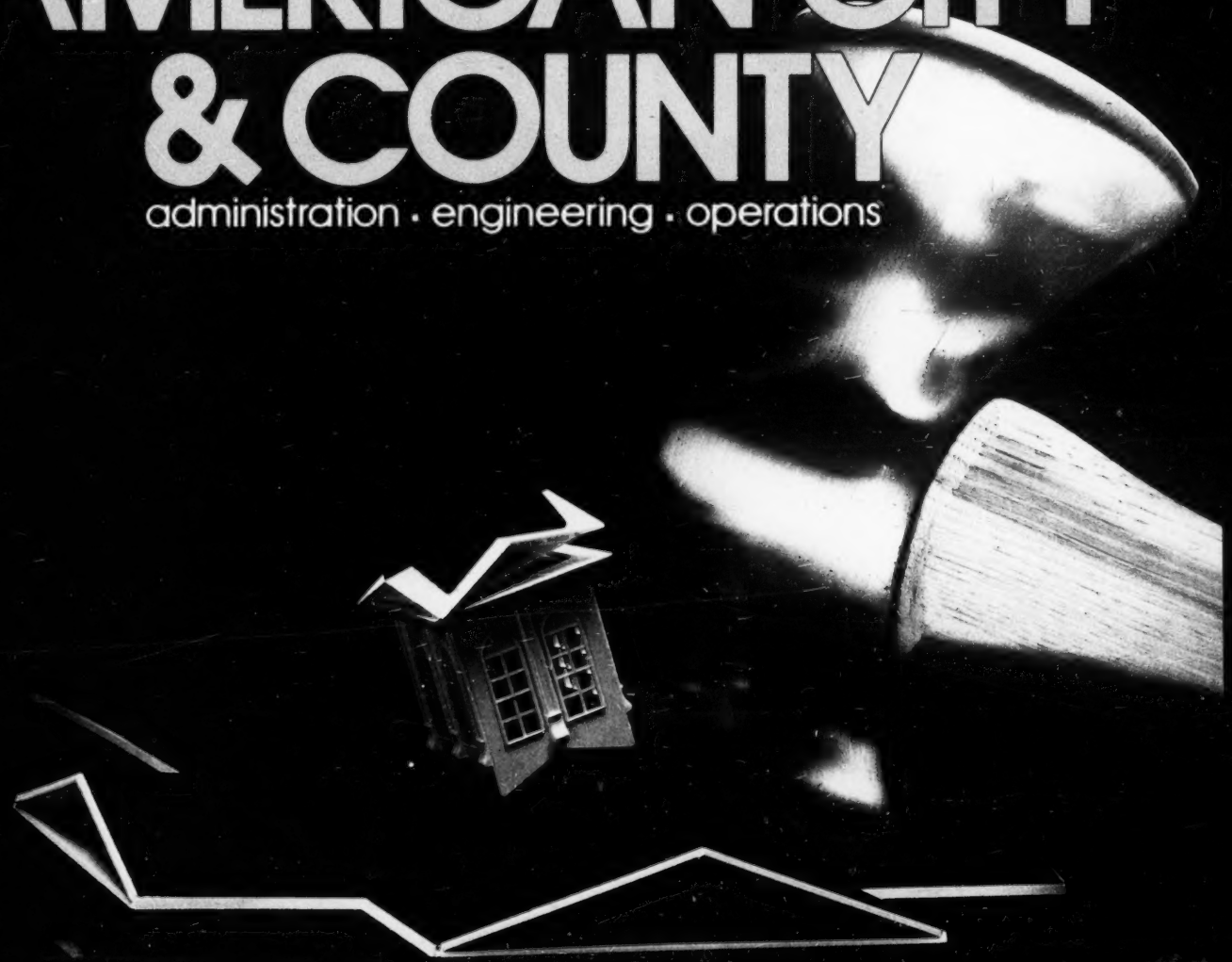

An Exclusive Survey
What Gramm-Rudman Will Ax

Parks & Recreation: Public or Private?

Straining Under Federal Mandates

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MAY 1986 Vol. 101, No. 5

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About the Cover

Beginning on page 42 this month is *American City & County's* exclusive survey on what effects the Gramm-Rudman-Hollings balanced budget amendment will have on local governments. The general consensus is that the ax will fall on local programs. (Photo by Neil Copeland of Atlanta.)

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AC&C Survey

Survey Shows Ax Will Fall

An exclusive *American City and County*/Touche Ross survey of municipal leaders reveals widespread concern over the anticipated effects of the Gramm-Rudman-Hollings balanced budget amendment.

By Rhett Harrell

Illustration By Becky Craig

Asking mayors and city managers what they think of the Gramm-Rudman-Hollings (GRH) bill is like asking them to choose from among a walk over white hot coals, a wrestling match with an alligator or a sharp stick in the eye. No choice is nice — the decision rests with which alternative hurts least.

American City and County magazine and Touche Ross, a multinational accounting and consulting firm, surveyed 2,000 city and county officials on GRH and its anticipated effects on their cities. A high percentage of the 315 respondents consider themselves well informed about the bill. Seventeen percent say they understand the bill "thoroughly," while 64 percent indicate they understand it "somewhat."

Municipal officials' awareness of GRH is not surprising considering the profound impact the act will have on the shape of local government administration and services during the next five years. The survey indicates the gravity of the new budget measure has hit home with local government leaders. For example, revenue sharing had been eliminated before GRH was passed, but any chance of resurrecting it may have been squelched by the bill. As a result, 66 percent of the respondents believe that beyond September 30, 1986, General Revenue Sharing will cease to exist.

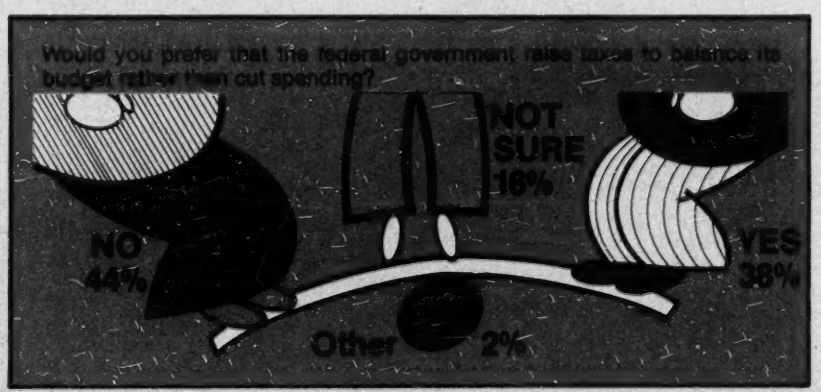
Some municipal officials volunteered their calculations of how much their cities stand to lose. Nicholas Riggs, city administrative officer of Shively, Kentucky, says his city's $2.1 million budget would lose between $150,000 and $175,000 in revenue sharing funds.

The survey also points out the general ambiguity surrounding GRH. Concerning the effectiveness of GRH, almost 70 percent of the respondents say it will not balance the budget, as the law requires. However, among those who say GRH will fail, approximately 55 percent expect it to reduce the deficit from its current $171.9 billion mark to less than $100 billion in the time allotted. Yet, no clear-cut consensus among those surveyed advises whether the federal government should raise taxes or cut services to accomplish deficit reduction.

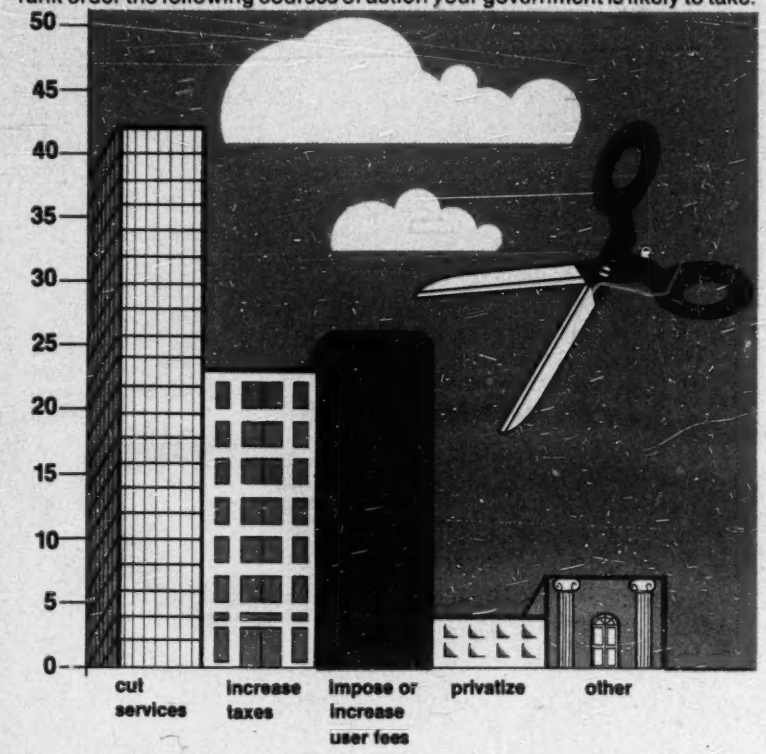
Among survey responses, negative remarks are clearly the order of the day. Comments regarding Gramm-Rudman-Hollings range from "a farce" to "a budgetary Hindenburg" to "a cop out." Only a handful of leaders express sympathy for the manner in which deficit reduction is being carried out.

Many local leaders who completed the survey are angry about the administration's priorities. "It is an attempt by a deficit-riddled government to transfer national priorities, goals and fiscal responsibilities to fragmented local and state entities, which lack adequate revenue, authority and capacity," says James Johnson, director of finance for Wylie, Texas.

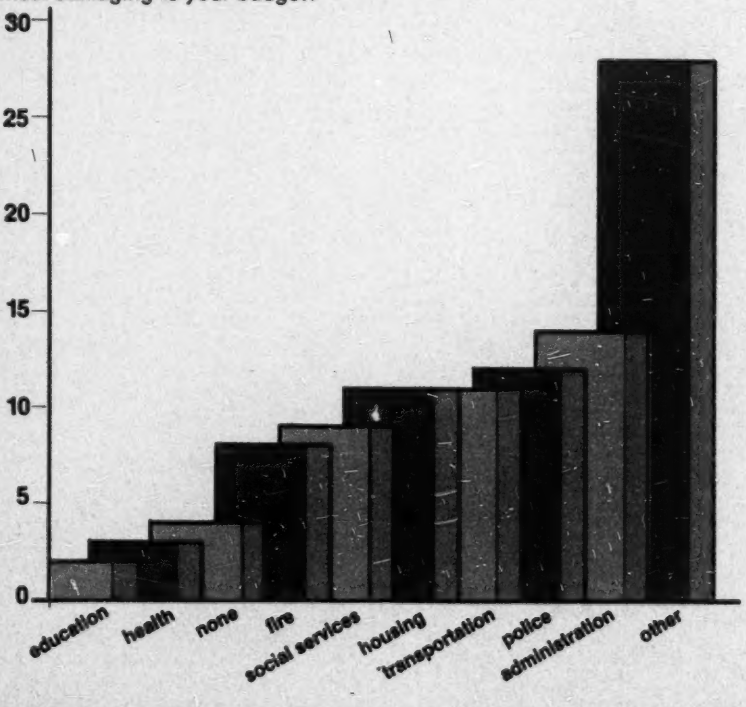
"Although I am a retired U.S. Air Force officer, and although our local


Would you prefer that the federal government raise taxes to balance its budget rather than cut spending?
NOT SURE 16%
NO 44%
YES 38%
Other 2%

In reacting to federal spending cuts caused by Gramm-Rudman-Hollings, rank order the following courses of action your government is likely to take:



Gramm-Rudman-Hollings will radically change the way that the federal government budgets. In which area is Gramm-Rudman-Hollings likely to be most damaging to your budget?



economy depends heavily on Homestead Air Force Base, I still deplore President Reagan's priorities," says Mayor Irving Peskoe of Homestead, Florida.

Fierce independence

On the other side of the issue is a small number of local leaders who favor a posture of fierce independence from the federal government. Emory Stephens, city manager of Dahlonega, Georgia, says he supports deficit reduction and a belief that local governments should take care of local services. "There is no reason local government should continue to depend on the federal handout. Cities across the nation should rely on their own resources and good management to pay their own way," he says.

That feeling is echoed by J.V. Little, city manager of Vero Beach, Florida, who adds, "It does not make sense to run serious federal deficits while funding local needs. It is time for the federal budget to be balanced at any cost."

Sun Belt cities, where economic conditions are stable or growing, may be in a better position than communities in other parts of the nation to compensate for the loss of federal funds. "We have 19 percent unemployment," says Mayor John Craig of Grand Rapids, Michigan, "and face a bleak future without the ability to raise funds for economic development programs. Gramm-Rudman will cripple our ability to assist our local economy."

Whether or not they favor GRH, local governments apparently are busy preparing their fiscal responses. More than 75 percent of respondents indicate they already have or will implement their reactions to the federal spending cuts this year or next year. Some who predict the law will be revoked or amended have adopted a "wait-and-see" attitude.

Local officials should not be lulled into a false sense of security by Supreme Court action on the bill. The "Balanced Budget and Emergency Deficit Control Act," now signed into law by the U.S. Congress, has set as its goal a balanced federal budget by the year 1991. In dealing with federal revenue losses, local governments must choose from among several fundamentally distasteful alternatives — higher taxes, cut services, privatization or increased user fees.

The overwhelming course of action local government officials have selected is cutting services. Nearly 50 percent indicate they will pursue that avenue, while 27 percent say they will use new or increased user fees to generate needed income. Only 23 percent will opt to raise local taxes. Not surprisingly, virtually all responding mayors indicate they prefer cutting services while their

typically non-elected counterparts, the city managers, favor increased user fees and taxes.

Survey results show that local government leaders, on the whole, favor cutting those programs that rely most heavily on federal subsidies. In other words, if federal funding for local housing rehabilitation is eliminated, then local government simply will no longer offer the service.

Dealing with reality

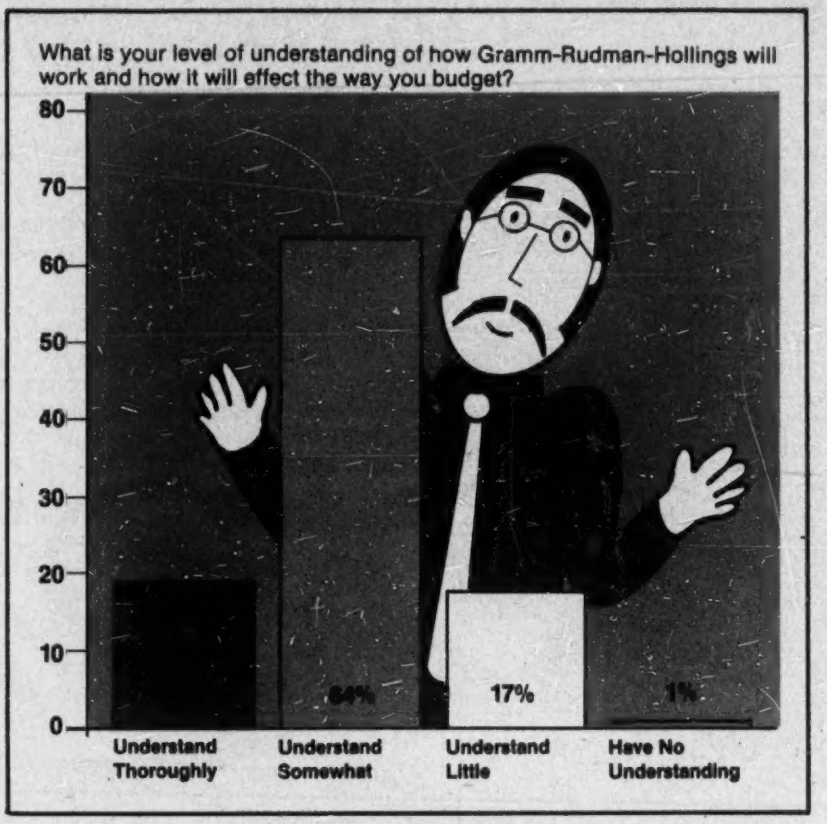
While that position may be fiscally sound, it also may be more easily said than done. Today's tough talk may be forced to adjust to the dictates of tomorrow's reality. Federally subsidized social services programs with a history of answering human needs do not die easily, and public officials may have to anticipate dealing with the issue of local funds picking up where federal funds left off.

Asked which budget area they expect will be hit hardest by GRH, 14 percent point to administration. This expectation is a reflection of what local governments can anticipate as federal cuts are implemented. Fewer clerks and secretaries, as well as slimmer operating costs, likely will characterize local government administration in the new Gramm-Rudman era. Of course, administration figures into every service offered by a government entity, so most municipal services will be affected. Police and fire protection rank second and third as budget categories in which local government officials anticipate reductions.

Federal programs that respondents designate as most difficult to survive without are: economic development, with 80 percent citing Community Development Block Grants as the toughest to lose; transportation, with 57 percent specifying federal-aid highway programs as difficult to lose; housing, with subsidized and low-income housing programs cited; and education, with vocational education listed as a priority program.

The *American City and County*/ Touche Ross survey reveals that most local officials agree that a time of tremendous transition and adjustment is ahead. In Washington, D.C., insiders jokingly have turned the authors of the deficit reduction bill into a new verb. Local government officials can hope to avoid being "Gramm-Rudmanned," but they are better advised to study GRH, watch its inevitable changes on Capitol Hill and seek expert advice on choosing the least painful course. □

Rhett Harrell is an audit manager for Touche Ross in Atlanta, Ga. Additional research was provided by Rie Nishimura, John D'Avanzo, Arlette Ryan and Eric Cutler.



Tough Times Ahead For Local Officials

By Stanley Collender

For state and local governments, the 1985 Balanced Budget and Emergency Deficit Control Act could be easily the most fiscally disruptive law ever enacted by the federal government. At best, the new law — better known as Gramm-Rudman-Hollings after its three leading Senate sponsors, Phil Gramm, Warren Rudman and Ernest Hollings — promises increased uncertainty about what programs the federal government will fund, at what levels, and how long those funds will be available. At worst, the act means the virtual elimination of all federal aid to state and local governments during the next five years.

The Gramm-Rudman-Hollings federal budget process contains two major elements; both pose serious threats to state and local governments. First, the legislation mandates specific deficit targets, or "maximum deficit amounts," for the next five fiscal years, starting with $171.9 billion in fiscal 1986 and declining by approximately $36 billion a year until the budget finally is balanced in fiscal 1991. Each year, the president is required to submit a budget to Congress that has a deficit no higher than the amount set for that year. Similarly, Congress is required to pass a budget, and the spending and tax bills to enact it. The budget must not have a deficit higher than the maximum allowed under the new law.

Since Gramm-Rudman-Hollings does not specify how the maximum deficit is to be reached — only that it must not be exceeded — the president and Congress are free to propose any combination of spending cuts or tax increases. However, the technicalities of the federal budget, combined with current Washington politics, have exempted a large number of federal programs from spending cuts. And it is no secret that the Reagan administration adamantly opposes a tax increase of any kind.

The reality of the situation, therefore, is that although legislation does not specify, the programs most likely to suffer the deepest wounds are those that state and local governments care about most.

How can this be true? How is it pos-

MUNICIPAL COST INDEXES

The **Municipal Cost Index** for May dropped one point from April, leveling out at 337.6.

The **Construction Cost Index** rose slightly by 0.3 percent to 368.6, up from last month's figure of 367.4. Also rising slightly is the **Consumer Price Index**, which slows a .03 percent gain for the month. The **Producer Price Index**, however, continues its decline, falling almost two percent to 304.7.

Products in the fuel and oil familiy showed dramatic decreases in this month's marketbasket. Fuel Oil No. 2 fell over 27 percent, while diesel fuel slumped by 22 percent. Other commodities listed fared well, posting slight gains or losses.

— Joe Morris

THIS MONTH'S MARKETBASKET

	Current Index	Percent Change From: Last Month	Last Year
Air Conditioners	148.2	.1	1.5
Apparel	183.6	.7	1.5
Asphalt Roofing	405.0	0.0	−.6
Books	138.0	1.0	5.1
Chemicals, Industrial	340.0	0.0	1.0
Coal	538.0	−.6	−2.1
Concrete Products	325.6	0.0	3.5
Construction Machinery	365.4	.1	.6
Diesel Fuel	507.7	−22.1	−21.5
Electric Components	199.3	.2	.3
Electric Lamps	346.8	−.1	2.0
Electric Power	460.5	1.3	3.3
Engines, I.C.	348.9	.2	2.7
Fans, Blowers	361.9	.2	1.2
Fertilizers, Mixed	253.4	1.0	−2.2
Floor Coverings	190.4	.4	−1.0
Flow Instruments	233.3	−.1	1.0
Footwear	260.4	.3	1.8
Foundry Products	365.2	.4	.7
Fuel Oil No. 2	499.1	−27.4	−24.0
Furniture	315.1	0.0	4.1
Gasoline	472.8	−11.3	−6.8
Generator Sets	349.6	0.0	−.1
Glass	229.8	0.0	4.0
Glass Containers	387.5	.2	6.3
Gypsum Products	362.2	.5	5.2
Hardware	309.6	−.1	2.1
Heating Equipment	264.9	.1	3.0
HVAC Controls	125.9	−.6	.2
LP Gas	578.7	−8.3	8.9
Lubricants	376.5	2.4	1.3
Lumber	330.6	−.7	−4.6
Metal Fabrications	315.8	.2	.7
Millwork	311.8	0.0	.1
Motor Vehicle Parts	357.3	.5	1.0
Mowers	262.1	.5	1.1
Natural Gas	1337.0	.1	−5.6
Office Machines	155.2	.5	1.0
Paint	278.9	−.2	1.5
Paper	301.4	.1	−1.0
Passenger Cars	229.6	−.2	1.1
Plumbing Fixtures	316.0	.4	3.0
Plywood	229.0	−.2	1.1
Portland Cement	359.4	.2	−.1
Residual Fuel	756.5	−13.8	−31.7
Sand, Gravel	312.9	.4	2.9
Sanitary Papers	380.9	.1	1.7
Soaps, Detergents	275.1	−.1	.9
Sporting Goods	203.2	.1	−.6
Steel Mill Products	346.4	−.9	−5.7
Struc. Clay Products	305.4	1.8	4.8
Switchgear	282.6	.2	1.0
Tires, Tubes	237.3	.7	−.9
Transformers	233.0	−.1	1.0
Trucks	340.2	−1.4	2.1
Valves	106.2	.1	2.1
Wire, Cable	206.4	0.0	1.5
Wiring Devices	370.8	.4	2.7

At-A-Glance Changes

MUNICIPAL COST INDEX

Last Year 334.3 — Last Month 338.6 — This Month 337.6

Percent Change From Last: Month −.31 Year .98

CONSTRUCTION COST INDEX

Last Year 365.3 — Last Month 367.4 — This Month 368.6

Percent Change From Last: Month .3 Year .9

CONSUMER PRICE INDEX (BLS)

Last Year 317.4 — Last Month 327.4 — This Month 327.5

Percent Change From Last: Month .03 Year 3.2

PRODUCER PRICE INDEX (BLS)

Last Year 334.3 — Last Month 310.2 — This Month 304.7

Percent Change From Last: Month −1.8 Year −1.8

QUARTERLY MUNICIPAL TRENDS

	Current Level	Percent Change From: Last Qtr.	Last Year
Receipts	581.8B	2.0	7.3
Federal Grants	102.0B	1.4	4.8
Durable Purchases	20.6B	2.0	7.3
Consumables	39.9B	4.5	7.3
Services	357.2B	1.9	7.9
Structures	55.8B	−4.6	1.6
Salaries, Wages	286.9B	1.9	7.7
Surplus	56.9B	−.7	−8.4
Employment	13.568M	−.2	2.2

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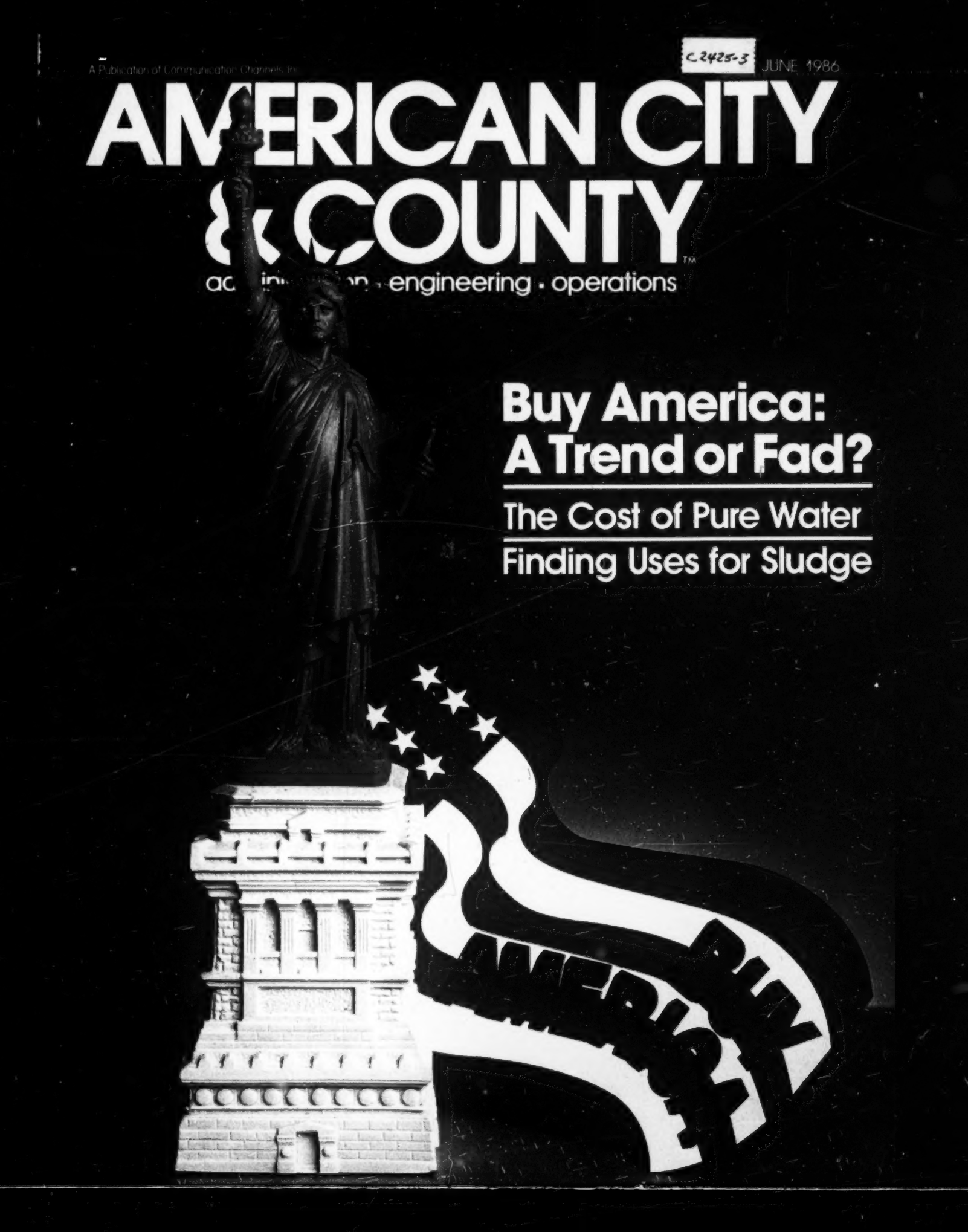

Buy America: A Trend or Fad?

The Cost of Pure Water

Finding Uses for Sludge

A Publication of Communication Channels, Inc.

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June 1986 Vol. 101, No. 6

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About the Cover

"Buy America" is a trendy phrase these days, but for local government officials, public pressure and existing legislation give "Made in the U.S.A." new meaning. (Photo by Terri Teague)

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MUNICIPAL COST INDEXES

The **Municipal Cost Index** for June posted a slight loss, dropping from 337.6 to 336.3. Also declining were the **Consumer Price Index** and the **Producer Price Index**, with the latter showing a loss of 7.1 percent from last month. The **Construction Cost Index** rose slightly in June, however, up 0.3 pecent from May.

Products in the fuel and oil family continued their decline, posting the greatest losses in this month's market-basket. Residual fuel oil and diesel fuel showed one of the largest declines, each down almost 40 percent from last year's figures.

— Joe Morris

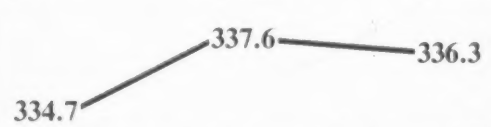
These figures are calculated on a base year of 1967.

THIS MONTH'S MARKETBASKET

	Current Index	Percent Change From: Last Month	Last Year
Air Conditioners	148.5	.2	1.4
Apparel	183.8	.1	1.5
Asphalt Roofing	400.4	−1.1	−1.4
Books	137.8	−.1	5.0
Chemicals, Industrial	335.3	−1.4	−.4
Coal	539.6	.3	−1.7
Concrete Products	325.4	−.1	3.0
Construction Machinery	365.7	.1	.9
Diesel Fuel	392.8	−22.6	−38.3
Electric Components	200.1	.4	.7
Electric Lamps	349.3	.6	3.2
Electric Power	450.9	−22.1	−14.6
Engines, I.C.	349.6	.2	2.9
Fans, Blowers	362.1	.2	1.5
Fertilizers, Mixed	252.7	−.3	−2.7
Floor Coverings	193.8	1.8	.5
Flow Instruments	235.7	−.4	1.2
Footwear	261.5	.4	2.5
Foundry Products	364.8	−.1	.6
Fuel Oil No. 2	443.1	−11.2	−33.2
Furniture	314.5	−.2	3.6
Gasoline	371.3	−21.5	−28.1
Generator Sets	349.3	−.1	−.1
Glass	229.5	−.1	3.9
Glass Containers	388.5	.3	3.9
Gypsum Products	351.1	−3.1	4.4
Hardware	311.6	.6	2.2
Heating Equipment	264.7	−.1	2.8
HVAC Controls	125.9	−.6	.8
LP Gas	450.9	−22.1	−14.6
Lubricants	380.8	.2	3.0
Lumber	339.2	2.6	−2.5
Metal Fabrications	315.1	−.2	.2
Millwork	313.7	.6	1.1
Motor Vehicle Parts	358.8	.4	1.4
Mowers	106.7	−.2	.9
Natural Gas	1328.9	−.6	−3.6
Office Machines	153.9	−.8	.3
Paint	280.0	.4	1.8
Paper	301.5	0.0	−.7
Passenger Cars	229.1	−.2	1.1
Plumbing Fixtures	324.6	2.7	5.5
Plywood	232.3	1.4	3.9
Portland Cement	359.1	−.1	−.6
Residual Fuel	665.5	−12.0	−40.2
Sand, Gravel	315.0	.7	3.2
Sanitary Papers	381.4	.1	1.9
Soaps, Detergents	276.5	.5	1.4
Sporting Goods	203.9	.3	−.4
Steel Mill Products	346.6	.1	−5.5
Struc. Clay Products	303.7	.4	4.5
Switchgear	283.6	.4	.7
Tires, Tubes	236.5	−.3	−1.0
Transformers	234.4	.1	−.2
Trucks	340.2	0.0	2.1
Valves	106.2	0.0	1.8
Wire, Cable	206.5	0.0	1.8
Wiring Devices	372.7	.5	3.2

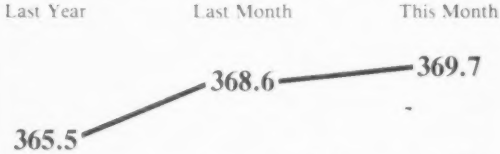
At-A-Glance Changes

MUNICIPAL COST INDEX



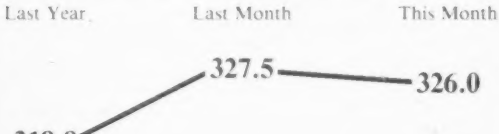
Percent Change From Last: Month −0.4 Year 0.5

CONSTRUCTION COST INDEX



Percent Change From Last: Month 0.3 Year −1.1

CONSUMER PRICE INDEX (BLS)



Percent Change From Last: Month −.6 Year 2.3

PRODUCER PRICE INDEX (BLS)

Percent Change From Last: Month −7.1 Year −2.7

QUARTERLY MUNICIPAL TRENDS

	Current Level	Percent Change From: Last Qtr.	Last Year
Receipts	589.7B	1.4	8.8
Federal Grants	102.0B	1.4	4.8
Durable Purchases	20.6B	2.0	7.3
Consumables	39.9B	4.5	7.3
Services	357.2B	1.9	7.9
Structures	54.7B	−6.5	7.4
Salaries, Wages	286.9B	1.9	7.7
Surplus	59.4B	4.4	−9.7
Employment	13.581M	.07	2.3